



Need for Comprehensive Annual User Fee Review as Part of the Annual Budget

**Presentation to Budget & Finance Committee
March 5, 2008**



Need for Annual User Fee Review

- User Fees are paid by individuals, groups and businesses who use or benefit from the service provided
- User Fee Revenue helps to recover costs of specific services desired or needed by segments of the community
- Preserves general taxes to support core services of broader community benefit



Need for Annual User Fee Review (con't.)

- Addresses costs associated with:
 - The need to provide regulatory functions for health and safety purposes (e.g. Building inspection fees)
 - The need to provide opportunities for public participation in highly desirable activities (e.g. Ballpark use fees)
- Cost recovery of user fees becomes even more critical when facing budget deficits and possible service reductions



Need for Annual User Fee Review (con't.)

A Government Finance Officers Association (GFOA) best practice of “Setting of Government Charges and Fees” (1996) supports the use of charges and fees as a method of financing governmental goods and services.



Need for Annual User Fee Review (con't.)

- GFOA makes the following key recommendations to guide the process:
 - A formal policy regarding charges and fees should be adopted
 - The full cost of service should be calculated in order to provide a basis for setting the charge or fee
 - Charges and fees should be periodically reviewed and updated based on factors such as inflation, adequacy of coverage of costs and current competitive rates
 - Information on charges and fees should be made available to the public



City of San Diego

Administrative Regulation 95.25

- 4.1 Each department shall annually analyze services provided to determine if fees are appropriate and if current fees reasonably recover the cost of providing services
- 4.2 Cost of providing a service should reflect the current budgeted salaries and wages, the applicable overhead rate as determined by the Auditor and Comptroller, and related non-personal expense



Need for Annual User Fee Review (con't.)

The IBA has discussed in numerous reports the need for the City to identify the full cost of service for activities that charge user fees; to determine current cost recovery rates for these activities; to develop “target” cost recovery policies and, to propose recommendations to Council for achieving these targets.



Need for Annual User Fee Review (con't.)

The Kroll report released in August 2006 also included a recommendation “that activities supported by user fees should be fully cost recoverable.”



Need for Annual User Fee Review

The Mayor's 2009-2013 Five-Year Financial Outlook stated that "budget solutions include enhanced revenue to ensure cost recovery of fee-supported services."

A fee proposal for FY 2009 was scheduled to be discussed by the Mayor's Office at the March 5, 2008 Budget & Finance Committee meeting in preparation for the FY 2009 Budget Process.



Need for Annual User Fee Review

The Mayor's Office has indicated that this item will likely not be ready for FY 2009 budget deliberations.

Development Services Comprehensive Fee Study is underway and fee increases may be necessary for FY 2009.

Fee increases have been considered in other areas (e.g. Park and Recreation).

Council needs to be updated on user fee reviews underway that may be contemplated for FY 2009 budget.



Recommendation #1

- Recommend that the Budget & Finance Committee and the Audit Committee request the City Auditor to undertake an audit of the City's user fee process as part of his Annual Audit Work Plan
- If additional resources are necessary, this should be discussed during the budget process; will likely pay for itself through increased revenues



Recommendation #1 (con't.)

Attachment 1 to IBA Report is an Executive Summary of a “Fee Structure Review” audit prepared by the City of Austin, Office of the City Auditor, for the Austin City Council which recommended process improvements for “setting and evaluating fee levels and structures” for that municipality



Recommendation #2

Recommend that the Audit Committee discuss with the City Auditor what role the Auditor's Office should play in assisting Financial Management and other City departments to implement a comprehensive annual user fee review as part of the annual budget process.



Recommendation #2 (con't.)

This could include:

- providing uniform guidance on current cost of service and cost recovery calculations;
- assisting in implementation of a City-wide approach to achieving cost recovery “targets”;
- once a target is reached, implementing a systematic process for annual inflationary adjustments to avoid major changes; and
- compiling a master fee schedule for the City of San Diego



Recommendation #2 (con't.)

The City of Phoenix provides an example where the City Auditor plays a significant role in the annual user fee review each year by working with City departments to achieve accurate and uniform cost accounting. This is done as a routine step in the City's annual budget process. As fee revenues drop below policy targets, the Council is able to evaluate potential fee increases along with other annual budgetary actions.



Recommendation #2 (con't.)

Attachment 2 to IBA report provides the summary results of the City of Phoenix's Annual User Fees Audit for FY 2008 as presented to Council during the annual budget process.



Recommendation #3

Recommend, as a follow-up to previous recommendations, that a formal user fee and cost recovery policy be developed for Council review and consideration by January 2009.